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NSC review completed   13 May 1981

MEMORANDUM FOR: Jack Davis, NIO/LA

SUBJECT   :   US Support for Caribbean Basin Development

1. The Program. The Caribbean Basin initiative envisions collaboration between the United States and Canada, and perhaps, Mexico and Venezuela for a joint aid and economic cooperation program. The plan proposes first, a phased movement to one-way free trade beginning with the United States and Canada extending GSP to all eligible products, and second, increased capital flows for balance of payments support. The recipient countries would guarantee private foreign and domestic investment against arbitrary expropriation, commit themselves to sound economic programs and support economic and political pluralism. [   ]   25X1

2. An Evaluation. The policy paper generally provides a useful framework to address the region's myriad of problems. It is, however, unrealistic in its expectations of likely results from the specified US support.

o   The region's financial gap probably will greatly exceed $400 million to $500 million, even for those countries with IMF programs. Targeted financing under Jamaica's accord with the IMF appears to be in hand for 1981, but financial inflows during 1982-83 are uncertain.

o   The meager economic growth stipulated in the paper would not allow much progress in alleviating social problems.

o   Many of the most important impediments to growth are functions of political organizations, institutions, or human skills development that are largely outside the scope of the program in the medium term.

o   OPIC insurance guarantees in politically troubled areas would be insufficient to encourage foreign capital inflows; investment could still flow to wealthier, less politically troubled economies.

o   Some of the so-called countries in this region have no prospect in any plausible scenario of being self-sustaining because of the character or scale of their resource base.   25X1

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